



MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the consolidated financial position and consolidated results of operations of United FCS, ACA and its subsidiaries. The accompanying consolidated financial statements and notes also contain important information about our financial position and results of operations. Our 2010 annual report should also be read for a description of our organization, operations and significant accounting policies. Our annual report is available on our website at www.unitedfcs.com.

AgriBank, FCB's (AgriBank) financial condition and results of operations materially affect shareholders' investment in United FCS, ACA. To request free copies of the AgriBank and combined AgriBank, FCB and Affiliated Associations' financial reports or additional copies of our report contact us at P.O. Box 1330, Willmar, Minnesota 56201, (320) 235-1912. You may also contact AgriBank at 375 Jackson Street, St. Paul, Minnesota 55101-1810, (651) 282-8800, or by e-mail to agribankmn@agribank.com. The AgriBank and combined AgriBank, FCB and Affiliated Associations' financial reports are also available through AgriBank's website at www.agribank.com.

Loan Portfolio

Loan volume totaled \$1.2 billion at June 30, 2011, a \$26.8 million decrease from December 31, 2010. This decrease is due to unused operating commitments because of reduced operating loan needs along with principal payments exceeding plan, partially offset by new mortgage loan growth and higher than planned usage of available commitment on the participation portfolio.

Risk Assets

The following table summarizes risk assets (accruing volume includes accrued interest receivable) and delinquency information (in thousands):

	June 30 2011	December 31 2010
As of:		
Loans:		
Accruing restructured	\$3,865	\$1,017
Past due 90 days or more still accruing	35	--
Nonaccrual	10,799	8,818
Total risk loans	14,699	9,835
Other property owned	3,411	2,931
Total risk assets	\$18,110	\$12,766
Risk loans as a % of total loans	1.3%	0.8%
Total delinquencies as a % of total loans	0.4%	0.4%

Our risk assets have increased from December 31, 2010; however, they remain at acceptable levels.

The increase in accruing restructured loan volume is primarily due to a mortgage loan restructuring.

Based on our analysis, loans past due 90 days or more and still accruing interest were adequately secured and in the process of collection and, as such, were eligible to remain in accruing status.

The increase in nonaccrual loans was primarily due to several participation downgrades. Despite the increase in nonaccrual loans, total risk loans as a percentage of total loans remains well within our established risk management guidelines. The volume of nonaccrual loans remained at an acceptable level at June 30, 2011, and represented 0.9% of our total portfolio. At June 30, 2011, 76.5% of our nonaccrual loans were current.

Portfolio Credit Quality

The credit quality of our portfolio has decreased slightly from December 31, 2010. Adversely classified assets have increased slightly to 2.1% of the portfolio at June 30, 2011, from 2.0% of the portfolio at December 31, 2010. Adversely classified assets are loans and leases with serious contractual performance deficiencies and/or borrowers that exhibit serious weakness in repayment capacity, equity and/or collateral.

In some circumstances, we use various governmental guarantee programs to reduce the risk of loss. At June 30, 2011, \$42.5 million of our loans were, to some level, guaranteed under these governmental programs.

Agricultural and Economic Conditions

USDA's 2011 Farm Sector Income Forecast projects net farm income to be \$94.7 billion in 2011, nearly 20 percent higher than 2010. USDA forecasts farm expenses to rise 7.0 percent in 2011 after increasing 2.3 percent in 2010 and exceeding \$300 billion for the first time.

Cash Grain – Corn/Soybeans: USDA's June Acreage and Quarterly Grain Stocks report showed planted corn acres at 92.3 million acres, which were substantially higher than expected given planting delays and flooding issues in the Midwest. Soybean acres were estimated at 75.2 million acres, substantially lower than trade expectations. USDA projects tight ending U.S. corn and soybean supplies into 2012. They project ending U.S. corn supplies at 695 million bu. and an average price of \$6.00-\$7.00/bu., and the ending U.S. soybean supplies at 190 million bu. with an expected average price of \$13-15.00/bu.

General Crops: Area producers were able to plant (on a delayed basis) corn, soybeans, potatoes, canning crops and sugar beet crops this spring with very limited preventative plantings. Area crops are generally 3-4 weeks behind in crop development compared to the last five years. Crop conditions currently are quite variable due to the wide window of planting dates, excess moisture, less than optimal plant stand counts and weed pressure. Early harvest reports on 2011 alfalfa indicates good tonnage and quality.

Dairy: USDA's February 2011 Farm Sector Income Forecast projects dairy cash receipts to increase 2.8 percent in 2011 with projected milk prices increasing by \$.20/cwt from 2010 levels. Dairy cow numbers are also expected to increase slightly in 2011, with a slight decrease projected in 2012. USDA expects that milk production per cow will continue to increase in both 2011 and 2012. U.S. milk production in May was up 1.5 percent from May 2010 levels with production in Wisconsin down 1.8 percent and Minnesota down 2.7 percent, respectively.

Area dairy producers harvested good alfalfa forage and corn silage crops in 2010 along with corn for grain which should help minimize feed purchases. Many dairy producers in our local service area have operated at or slightly above break-even levels for the last 18 months. The current milk futures for 2011, if achieved, should allow most dairy producers to operate at profitable levels for the remainder of 2011.

General Livestock: The February 2011 USDA Farm Sector Income Forecast states "Cattle and calf cash receipts are anticipated to increase 4.9 percent, despite declining production in 2011, as global demand for U.S. beef is expected to remain strong. Despite higher feed costs, hog cash receipts are expected to increase 2.9 percent in 2011 due to increased pork production coupled with greater pork exports. Broiler cash receipts are expected to increase almost 1.9 percent in 2011, with increases in production offset by strong broiler export demand."

The May 2011 USDA Cold Storage report showed that frozen meat stocks were nearly 12 percent higher than a year-ago and 4.9 percent higher than April levels. The report showed that frozen beef stocks were up 25.5 percent from year-ago levels, frozen pork stocks were up 22.2 percent, frozen chicken stocks were up 9.8 percent, while frozen turkey stocks were down 3.9 percent.

The June USDA Hogs and Pigs report showed the current U.S. inventory of all hogs and pigs on June 1, 2011 was up 1 percent from one year ago. Breeding inventory was unchanged while marketing hog inventory was up 1 percent from year-ago June levels. Year-to-date, hog producers in the Association's portfolio have operated at profitable levels. Expectations are that 2011 hog slaughter will be unchanged to 1 percent above 2010 levels.

Prices for turkey products steadily increased throughout 2010 and remained strong through the first half of 2011 due to historically low levels of product inventory. The turkey industry was able to operate at a strong profitability level in 2010 after two years of more limited returns. The industry continued to operate profitably in the first half of 2011 even with the higher feed costs. Current frozen stocks of turkeys are at very low levels. The outlook for 2011 continues to be positive but not as strong as 2010 levels due to higher feed and fuel costs.

The broiler industry continued to struggle in the first half of 2011 with both demand and production issues that started in the latter half of 2010. The continued combination of increased production and less exports has resulted in more production going into frozen storage and stable/slightly lower broiler prices. Feed costs also started to increase substantially in the 4th quarter of 2010 and are projected to remain at high levels into the 3rd quarter of 2011. The industry outlook is for losses to continue into the first quarter of 2012 based on lower production and feed prices softening.

Ethanol: The ethanol industry was generally able to operate at slight profitability in the first half of 2011. The higher oil and gas prices in 2011 have allowed ethanol prices to increase which offset a majority of the corn price increase that has occurred in the 2011. The current eleven state three month (July-Sept) profitability forecast before debt servicing is a positive \$.28/gal.

The Renewable Fuel Standard required the production of 12.6 billion gallons of ethanol in 2011. According to the Renewable Fuels Association, ethanol producers are producing on an annualized basis just over 13.6 billion gallons of ethanol based on June information. U.S. ethanol production capacity is currently at 14 billion gallons increasing to 14.7 billion gallons in 2011. There were no significant imports of ethanol into the U.S. in 2010 with the U.S. actually exporting ethanol in 2010 and setting record levels of exports during the year.

The industry continues to deal with much higher corn costs in 2011 compared to 2010 due to tighter U.S. corn supplies.

Allowance for Loan Losses

The allowance for loan losses is a valuation estimate of potential losses on loans in our portfolio as of the financial statement date. We determine the appropriate level of allowance for loan losses based on periodic evaluation of factors such as loan loss history, portfolio quality and current economic and environmental conditions.

Comparative allowance coverage of various loan categories follows:

	June 30	December 31
Allowance as a percentage of:	2011	2010
Loans	0.5%	0.4%
Nonaccrual loans	51.1%	59.5%
Total risk loans	37.5%	53.4%

In our opinion, the allowance for loan losses was reasonable in relation to the risk in our loan portfolio at June 30, 2011.

Results of Operations

Net income for the six months ended June 30, 2011, totaled \$11.8 million compared to \$9.9 million for the same period of 2010. The following table illustrates profitability information:

As of June 30	2011	2010
Return on average assets	1.9%	1.8%
Return on average members' equity	12.3%	11.5%

The following table summarizes the changes in components of net income for the six months ended June 30, 2011, compared to the same period of 2010 (in thousands):

Increase (decrease) in net income	2011 vs 2010
Net interest income	\$2,084
Provision for loan losses	20
Patronage income	516
Other income, net	(453)
Operating expenses	(965)
Provision for income taxes	693
Total change in net income	\$1,895

Net interest income was \$18.1 million for the six months ended June 30, 2011. The following table quantifies changes in net interest income for the six months ended June 30, 2011, compared to the same period of 2010 (in thousands):

Change in net interest income	2011 vs 2010
Changes in volume	\$1,890
Changes in rates	179
Changes in nonaccrual income and other	15
Net change	\$2,084

The increase in *patronage income* is related to our July 2010 sale of a participation interest in certain real estate loans to AgriBank. This was offset by our share of distributions from Allocated Insurance Reserve Accounts (AIRA) during the first quarter of 2010 totaling \$130 thousand related to the participations sold to AgriBank during 2010. These reserve accounts were established in previous years by the Farm Credit System Insurance Corporation when premiums collected increased the level of the Insurance Fund beyond the required 2% of insured debt.

The decrease in *other income, net* is primarily related to our share of distributions from AIRA of \$1.1 million during the first quarter of 2010

and not received in 2011, partially offset by an increase in multi-peril crop insurance income and a decrease in depreciation expense.

The changes in *operating expenses* are primarily related to an increase in staff related expense.

The change in *provision for income taxes* is primarily related to a change in the tax deductibility of planned patronage levels.

Changes in our return on average assets and return on average members' equity are directly related to the changes in income discussed above, changes in assets discussed in the Loan Portfolio section above and changes in capital discussed in the Funding, Liquidity and Capital section below.

Funding, Liquidity and Capital

The Farm Credit System is a government-sponsored enterprise that has benefited from broad access to domestic and global capital markets. This access has provided us with a dependable source of competitively priced debt which is critical for supporting our mission of providing credit to agriculture and rural America. The recent U.S. Congressional negotiations aimed at raising the government's borrowing limit and addressing long-term budget imbalances have further highlighted the risks to the System relating to the U.S. fiscal situation. These risks include the apparent implied link between the credit rating of the System and the U.S. government given the System's status as a government-sponsored enterprise.

On August 2, 2011, Moody's Investors Service confirmed the AAA rating of financial institutions directly linked to the U.S. government, including Farm Credit Banks. The government bond rating of the U.S. government was confirmed AAA following the raising of the statutory debt limit, with a rating outlook of negative. In conjunction with the revision of the U.S. government outlook to negative, the rating outlook for the directly linked issuers, including Farm Credit Banks, has also been revised to negative. Fitch has also confirmed the AAA rating of the U.S. government. On August 5, 2011, Standard and Poor's Rating Services lowered the U.S. government rating to AA+, followed with a similar rating change for the System on August 8, 2011. The impact of these downgrades and any potential future downgrade by other rating agencies on the System's credit ratings, if they were to occur in the future, may increase our borrowing costs and may limit Farm Credit System access to the capital markets, reducing our flexibility to issue debt across the full spectrum of the yield curve.

We borrow from AgriBank in the form of a line of credit. Our promissory note was expanded in February 2011 up to \$1.15 billion with a maturity date of October 2011. The note will be renegotiated at that time. The repricing attributes of our line of credit generally correspond to the repricing attributes of our loan portfolio which significantly reduces our market interest rate risk.

Total members' equity increased \$9.3 million from December 31, 2010, due to net income for the period and an increase in capital stock and participation certificates partially offset by patronage distribution accruals.

Farm Credit Administration regulations require us to maintain a permanent capital ratio of at least 7%, a total surplus ratio of at least 7% and a core surplus ratio of at least 3.5%. Refer to Note 8 in our 2010 annual report for a more complete description of these ratios. As of June 30, 2011, the ratios were as follows:

- The permanent capital ratio was 11.7%.
- The total surplus ratio was 11.4%.
- The core surplus ratio was 11.4%.

The capital adequacy ratios are directly impacted by the changes in capital as more fully explained above and the changes in assets as further discussed in the Loan Portfolio section above.

Certification

The undersigned certify they have reviewed United FCS, ACA's June 30, 2011, quarterly report. It has been prepared under the oversight of the audit committee and in accordance with all applicable statutory or regulatory requirements. The information contained herein is true, accurate, and complete to the best of our knowledge and belief.



Gregory Jans
Chairperson of the Board
United FCS, ACA



Marcus L. Knisely
Chief Executive Officer
United FCS, ACA



Robert M. Haines
Chief Financial Officer
United FCS, ACA

August 9, 2011

CONSOLIDATED STATEMENTS OF CONDITION

United FCS, ACA

(Dollars in thousands)

(Unaudited)

	June 30 2011	December 31 2010
ASSETS		
Loans	\$1,150,045	\$1,176,885
Allowance for loan losses	5,513	5,251
Net loans	1,144,532	1,171,634
Investment in AgriBank, FCB	36,999	36,651
Investment securities	827	1,447
Accrued interest receivable	11,230	9,631
Premises and equipment, net	10,508	8,964
Other property owned	3,411	2,931
Assets held for lease, net	868	4,504
Net deferred income tax asset	328	--
Other assets	6,069	9,661
Total assets	\$1,214,772	\$1,245,423
LIABILITIES		
Note payable to AgriBank, FCB	\$1,008,375	\$1,041,992
Accrued interest payable	4,208	4,122
Net deferred income tax liability	--	1,412
Patronage distribution payable	2,500	6,000
Other liabilities	4,845	6,350
Total liabilities	1,019,928	1,059,876
Contingencies and commitments	--	--
MEMBERS' EQUITY		
Capital stock and participation certificates	4,470	4,427
Unallocated surplus	190,374	181,120
Total members' equity	194,844	185,547
Total liabilities and members' equity	\$1,214,772	\$1,245,423

CONSOLIDATED STATEMENTS OF INCOME

United FCS, ACA

(Dollars in thousands)

(Unaudited)

Period ended June 30	Three Months		Six Months	
	2011	2010	2011	2010
Interest income	\$13,235	\$12,791	\$26,502	\$25,046
Interest expense	4,208	4,561	8,399	9,027
Net interest income	9,027	8,230	18,103	16,019
Provision for loan losses	624	645	625	645
Net interest income after provision for loan losses	8,403	7,585	17,478	15,374
Other income				
Patronage income	1,461	1,147	3,037	2,521
Financially related services income	820	637	1,596	1,251
Fee income	560	290	879	586
Allocated insurance reserve account distribution	--	--	--	1,143
Miscellaneous income, net	268	228	644	592
Total other income	3,109	2,302	6,156	6,093
Operating expense				
Salaries and employees benefits	3,925	3,434	7,844	6,943
Other operating	1,678	1,601	3,334	3,270
Total operating expenses	5,603	5,035	11,178	10,213
Income before income taxes	5,909	4,852	12,456	11,254
Provision for income taxes	305	552	703	1,396
Net income	\$5,604	\$4,300	\$11,753	\$9,858

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

United FCS, ACA

(Dollars in thousands)

(Unaudited)

	Capital Stock and Participation Certificates	Unallocated Surplus	Total Members' Equity
Balance at December 31, 2009	\$4,108	\$162,614	\$166,722
Net income	--	9,858	9,858
Unallocated surplus designated for patronage distributions	--	(2,398)	(2,398)
Capital stock/participation certificates issued	305	--	305
Capital stock/participation certificates retired	(224)	--	(224)
Balance at June 30, 2010	\$4,189	\$170,074	\$174,263
Balance at December 31, 2010	\$4,427	\$181,120	\$185,547
Net income	--	11,753	11,753
Unallocated surplus designated for patronage distributions	--	(2,499)	(2,499)
Capital stock/participation certificates issued	275	--	275
Capital stock/participation certificates retired	(232)	--	(232)
Balance at June 30, 2011	\$4,470	\$190,374	\$194,844

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: Organization and Significant Accounting Policies

Our 2010 annual report contains a description of our organization and operations, significant accounting policies followed, and financial condition and results of operations as of and for the year ended December 31, 2010. These unaudited second quarter 2011 consolidated financial statements should be read in conjunction with the 2010 annual report.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim consolidated financial condition and consolidated results of operations. Our accounting and reporting policies conform to accounting principles generally accepted in the United States of America and the prevailing practices within the financial services industry. The results of the six months ended June 30, 2011, are not necessarily indicative of the results to be expected for the year ended December 31, 2011.

The consolidated financial statements present the consolidated financial results of United FCS, ACA (the parent) and United FCS, FLCA and United FCS, PCA (the subsidiaries). All material intercompany transactions and balances have been eliminated in consolidation.

Recent Accounting Developments

In May 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, "Fair Value Measurement – Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs." The new guidance results in a consistent definition of fair value and common requirements for measurement of and disclosure about fair value between U.S. GAAP and IFRS. The amendments include the following:

- Application of the highest and best use and valuation premise is only relevant when measuring the fair value of nonfinancial assets.
- An exception to the requirement for measuring fair value when a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, to market risks such as interest rate risk and credit risk of counterparties.
- Expansion of the disclosures about fair value measurements. New disclosures are required about the use of a nonfinancial asset measured or disclosed at fair value if its use differs from its highest and best use. In addition, entities must report the level in the fair value hierarchy of assets and liabilities not recorded at fair value but where fair value is disclosed.

The amendments are to be applied prospectively. The amendments are effective during interim and annual periods beginning after December 15, 2011. Early application is not permitted. The adoption of this guidance is not expected to have a significant impact on our financial condition or results of operations, but will result in additional disclosures.

In April 2011, the FASB issued guidance entitled "A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring." This guidance provides additional clarification to creditors for evaluating whether a modification or restructuring of a receivable is a troubled debt restructuring. The guidance is effective for non-public entities for annual periods ending on or after December 15, 2012, including interim periods within those annual periods. The adoption of this guidance is not expected to have a significant impact on our financial condition or results of operations, but will result in additional disclosures.

In July 2010, the FASB issued guidance on "Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses." This guidance is intended to provide additional information to

assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis and also calls for new disclosures. For non-public entities, the disclosures are effective for interim and annual reporting periods ending on or after December 15, 2011. The adoption of this guidance will have no impact on our financial condition or results of operations, but it will result in additional disclosures.

NOTE 2: Investment Securities

We held investment securities of \$0.8 million at June 30, 2011, and \$1.4 million at December 31, 2010, consisting of investment notes in a trust of equipment loans. The securities have been classified as held-to-maturity. The investment portfolio is evaluated for other-than-temporary impairment. To date, we have not recognized any impairment on our investment portfolio. The following table presents the amortized cost, unrealized gains and losses, and fair value of the investment securities (in thousands):

	June 30 2011	December 31 2010
As of:		
Amortized cost	\$827	\$1,447
Unrealized gains	40	157
Unrealized losses	(35)	(142)
Fair value	<u>\$832</u>	<u>\$1,462</u>
Weighted average yield	2.2%	3.4%

Investment income is recorded in "Interest income" on the Consolidated Statements of Income and totaled \$11 thousand for the six month period ended June 30, 2011, and \$105 thousand for the six month period ended June 30, 2010.

NOTE 3: Allowance for Loan Losses

A summary of changes in the allowance for loan losses follows (in thousands):

	2011	2010
Six months ended June 30		
Balance at beginning of year	\$5,251	\$3,915
Provision for loan losses	625	645
Loan recoveries	27	245
Loan chargeoffs	(390)	200
Balance at end of period	<u>\$5,513</u>	<u>\$5,005</u>

The following table presents information concerning risk loans (in thousands):

	June 30 2011	December 31 2010
As of:		
Volume with specific reserves	\$8,236	\$3,217
Volume without specific reserves	6,463	6,618
Total risk loans	<u>\$14,699</u>	<u>\$9,835</u>
Total specific reserves	\$1,801	\$907
Six months ended June 30		
Income on accrual risk loans	\$41	\$38
Income on nonaccrual loans	386	371
Total income on risk loans	<u>\$427</u>	<u>\$409</u>
Average recorded investment	\$11,589	\$17,085

The increase in risk loans is primarily due to a mortgage loan restructuring and several participation downgrades.

NOTE 4: Contingencies and Commitments

In the normal course of business, we have various contingent liabilities and commitments outstanding, primarily commitments to extend credit, which may not be reflected in the accompanying consolidated financial statements. We do not anticipate any material losses because of these contingencies or commitments.

From time to time, we may be named as a defendant in certain lawsuits or legal actions in the normal course of business. At the date of these consolidated financial statements, we were not aware of any such actions that would have a material impact on our financial condition. However, such actions could arise in the future.

NOTE 5: Fair Value Measurements

The FASB guidance on "Fair Value Measurements and Disclosures" defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. The guidance also establishes a fair value hierarchy, with three levels of inputs that may be used to measure fair value. Refer to Notes 2 and 13 in our 2010 annual report for a more complete description.

We do not have any assets or liabilities measured at fair value on a recurring basis at June 30, 2011, or December 31, 2010. We may be required, from time to time, to measure certain assets at fair value on a non-recurring basis. Information on assets measured at fair value on a non-recurring basis is as follows (in thousands):

	Fair Value Measurement Using			Total Fair Value	Total Gains (Losses)
	Level 1	Level 2	Level 3		
June 30, 2011					
Loans	\$ --	\$1,605	\$5,151	\$6,756	(\$894)
Other property owned	--	2,883	666	3,549	(10)
December 31, 2010					
Loans	\$ --	\$1,640	\$785	\$2,425	(\$171)
Other property owned	--	--	3,048	3,048	85

Loans: Represents the carrying amount and related write-downs of loans which were evaluated for individual impairment based on the appraised value of the underlying collateral. The fair value measurement would fall under level 2 of the hierarchy if the process uses independent appraisals and other market-based information. The fair value measurement would fall under level 3 of the hierarchy if the process requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral, and other matters. When the value of the collateral, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned: Represents the fair value and related losses of foreclosed assets that were measured at fair value based on the collateral value, which is generally determined using appraisals or other indications based on sales of similar properties. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 6: Subsequent Events

We have evaluated subsequent events through August 9, 2011, which is the date the financial statements were available to be issued. There have been no material subsequent events that would require recognition in our quarterly report or disclosure in the Notes to those financial statements.